

Message Text

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SUBJ: GOP MINISTER REVIEWS PERUVIAN ECONOMY IN 1975

1. SUMMARY: MINISTER OF ECONOMY AND FINANCE LUIS BARUA CASTANEDA GAVE A MAJOR SPEECH ON PERU'S ECONOMIC AND FINANCIAL SITUATION ON JANUARY 12. THIS SPEECH, AND OUR REPORTING OF IT, IS DIVIDED INTO THREE PARTS: (A) A REVIEW OF THE 1975 ECONOMIC SITUATION, (B) THE GOP'S PROGRAM OF ECONOMIC REACTIVATION (ALSO AUSTERITY), AND (C) THE PERSPECTIVES FOR 1976. PRESENT CABLE CONTAINS ONLY PART (A). BARUA'S PRESENTATION OF PERU'S 1975 ECONOMIC RESULTS TOUCHED UPON SIX TOPICS: PRICES, TERMS OF TRADE, BALANCE OF PAYMENTS, THE FISCAL SITUATION, FISCAL SUBSIDIES, AND ECONOMIC GROWTH. END SUMMARY.

2. IN REGARD TO PRICES, BARUA STATED THAT THE CPI INCREASED BY 24 PERCENT IN 1975 BUT THAT WITHOUT THE MEASURES OF JULY 1975 THE RATE OF INFLATION WOULD HAVE BEEN 28 PERCENT. HE NOTED THAT PERU'S IMPORT BILL CONTAINED VERY LITTLE THAT WAS SUPERFLUOUS AND THAT THE INTERNATIONAL FINANCIAL COMMUNITY CONTINUED TO LEND TO PERU BECAUSE IT HAD CONFIDENCE IN PERU.

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3. DISCUSSING PERU'S 1975 BALANCE OF PAYMENTS MINISTER

BARUA STATED THAT END OF YEAR NET INTERNATIONAL RESERVES WERE US\$150 MILLION. DURING 1975 PERU'S NET INTERNATIONAL RESERVE POSITION DECLINED BY \$543 MILLION. AT THE END OF DECEMBER (1975) THE BANCO CENTRAL DE RESERVA DEL PERU'S GROSS RESERVE POSITION WAS \$269 MILLION OF WHICH \$124 MILLION WERE GOLD AND SDR'S. MINISTER BARUA NOTED THAT DURING 1975 PERU WAS LOSING EXTERNAL RESERVES FROM MONTH TO MONTH. BALANCE OF PAYMENTS ITEMS PRESENTED BY MINISTER FOR 1974 AND 1975 ARE AS FOLLOWS IN MILLIONS OF US\$. (DATA FOR MOST 1975 ITEMS ARE UNDOUBTEDLY VERY PRELIMINARY ESTIMATES.)

	1974	1975
EXPORTS FOB	1,505	1,378
IMPORTS FOB	1,908	2,491
TRADE BALANCE	- 403	-1,113
CURRENT ACCOUNT		
BALANCE	- 725	-1,568
LONG TERM CAPITAL	745	1,137
BASIC BALANCE	20	- 431
SHORT TERM CAPITAL	262	- 112
BALANCE OF PAYMENTS	282	- 543

4. HE ATTRIBUTED THE 1975 B/P DETERIORATION TO THE FALL IN COPPER PRICES AND TO THE POOR ANCHOVETA CATCH. MINISTER BARUA NOTED THAT PERU'S TERMS OF TRADE MOVED FROM 84.9 IN 1973, 100 IN 1974 AND 87.4 IN 1975 WITH EXPORT PRICES OF 68.2 IN 1973, 100 IN 1974 AND 99.2 IN 1975 AND IMPORT PRICES OF 80.3 IN 1973, 100 IN 1974, AND 113.5 IN 1975.

5. MINISTER BARUA PRESENTED THE FOLLOWING INFORMATION ON THE FISCAL SITUATION FOR THE 1975-76 BIENNIUM (IN MILLIONS OF SOLES). ALL DATA REFER TO SITUATION PRIOR TO NEW TAX MEASURES AND REDUCTION IN FISCAL SUBSIDIES.

	1973-74	1975-76
1. CURRENT REVENUES	120,004	186,325
2. CURRENT EXPENDITURES	106,012	201,448
3. CURRENT SAVING	13,992	-15,122
4. CAPITAL EXPENDITURES	34,317	62,736
5. AMORTIZATION	33,139	26,948
6. DEFICIT	-53,464	-104,806
A. INTERNAL	29,793	81,510

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B. EXTERNAL	23,671	23,296
7. TAX PRESSURE (PERCENT OF GDP)	13.0	12.4
8. INTERNAL FINANCING AS PERCENT OF TOTAL EXPENDITURES	17.2	28.0

6. THE MINISTER SUGGESTED THAT THE FISCAL CURRENT ACCOUNT SURPLUS WAS INADEQUATE FOR GOP'S INVESTMENT PROGRAM, AND THAT THE INTERNAL DEFICIT OF THE SIZE PROJECTED FOR THE 1975-76

BIENNIUM WAS BEYOND THE CAPACITY OF THE FINANCIAL SYSTEM AND WOULD CREATE INFLATION INOCND OF ITSELF. ("FINALLY WE HAVE THE INFLATION OF COSTS AND THE DECREASE IN INTERNAL GOVERNMENT SAVING. WE SHOULD OVERCOME THIS SITUATION; PRESENTLY WE ARE DOING SO BY MEANS OF A LARGE CREATION OF MONEY WHICH HAS BECOME A PROPAGATING ELEMENT IN THE INFLATION WHICH GIVES RISE, IN TURN, TO SPECULATIVE INVENTORY ACCUMULATION, CAPITAL FLIGHT, AND EXCESSIVE CONSUMPTION EXPENDITURES BECAUSE AS PEOPLE SEE THEIR MONEY LOSING VALUE THEY UNDERTAKE LARGER CONSUMPTION EXPENDITURES.") HE ADDED THAT THE PUBLIC SECTOR HAS BEEN THE MAJOR INVESTOR FOR THE PAST SEVERAL YEARS, LISTED THE NUMEROUS PROJECTS THAT ARE BEING FINANCED BY THE PUBLIC SECTOR, AND NOTED THAT WHILE GROSS DOMESTIC INVESTMENT INCREASED BY A FACTOR OF THREE SINCE 1968 IN NOMINAL SOLES, PUBLIC SECTOR INVESTMENT HAD INCREASED BY A FACTOR OF 7.1.

7. IN REGARD TO FISCAL SUBSIDIES (MAINLY FOR FOODSTUFFS AND PETROLEUM PRODUCTS) THE MINISTER NOTED THAT 12.1 BILLION SOLES HAD BEEN BUDGETED INITIALLY FOR 1975-1976 AND THAT THE MEASURES OF JUNE-JULY 1975 HAD REDUCED THE REQUIRED SUBSIDIES TO 7.0 BILLION SOLES. THE DEVALUATION OF SEPTEMBER 1975 HAD CREATED AN ADDITIONAL BURDEN OF 11.0 BILLION SOLES AND THE EFFECT OF THE PRESENT PACKAGE OF PRICE INCREASES WOULD REDUCE THIS BURDEN BY 8.2 BILLION SOLES, LEAVING A TOTAL OF 9.8 BILLION SOLES FOR THE BIENNIUM.

8. GROSS DOMESTIC PRODUCT DATA BY SECTORS WERE PRESENTED BY THE MINISTER AND WERE STATED IN TERMS OF ANNUAL PERCENTAGE CHANGE (BASED ON CONSTANT 1970 PRICES).

	1974	1975
GDP	6.6	4.0
AGRICULTURE	2.3	1.0

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FISHING	40.9	-18.1
MINING	2.5	-10.4
INDUSTRY	8.0	6.0
CONSTRUCTION	19.5	15.0
OTHER	5.9	5.1

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